

Three things USAID can do right now

To prioritize **innovation** and
accelerate **impact**

Last fall, Administrator Samantha Power outlined a bold vision for the future of global development to address big challenges like pandemic response, climate collapse, and a global food crisis. But time flies. Before we know it, the UN General Assembly, COP27 and midterm elections will be here.

We know change is possible and that USAID is working diligently on implementing its roadmap for success.

Here are three commitments the agency can make right now to make a difference.

Given the urgency of this moment, USAID can make announcements of official policy changes and issue notices of proposed rulemaking by **September 30, 2022**, show evidence of implementation for each item by **December 31, 2022**, and fully implement each recommendation by **September 30, 2023**.

1. Use more transparency in your awards

For every grant or contract over \$10 million:

- **Increase accountability.** Ensure promises made are promises kept, by requiring prime award winners to publicly report the percentage of their total award budget they devolve to subpartners, including local partners, compared to what they proposed originally.
- **Stay outcomes-oriented.** Require every prime award winner to publicly report what key performance indicators will be measured in its work plan. Report progress quarterly. Publish in a timely manner all other reports provided to USAID by the prime.
- **Make subcontracting less about “who you know.”** Require every organization that intends to bid on a large grant or contract to publicly register its intent to do so, along with the relevant contact information for its proposal lead.

2. Scale up evidence-based solutions

Use at least \$1 billion every year to:

- **Require Bureaus to evaluate what programs previously and currently supported by USAID’s Development Innovation Ventures can be scaled up** using Bureau or Mission resources, or via Global Development Alliances, and what evidence-based programs funded by other donors could be co-financed. Scale these using next Fiscal Year’s funds.
- **Develop a list of “Smart Buys”** and corresponding "outcomes marketplace" to identify high-impact programs that USAID or other donors could fund. Require large awards to have a cost-effectiveness evaluation. Accelerate hiring for a Chief Economist to drive this work.
- **Don’t recreate the wheel.** Sign reciprocity agreements with other donors to expedite vetting for new USAID partners, including for humanitarian assistance. Fund local or regional intermediaries that will not perform programmatic work but can do due diligence and manage back-office systems so non-traditional partners can win awards directly.

3. Bring in new partners for better outcomes

Reserve 25% of all Bureau/Mission funding for proposals endorsed by local actors and submitted by non-traditional partners:

- **Cast a wider net.** Limit eligibility to submit proposals for reserved funding to non-traditional partners and especially local actors. Selected partners should not be required to become sub-awardees. Publish which overseas Missions have funding, in which sectors.
- **Ease the application process.** To access this reserved funding, allow non-traditional partners to submit concept notes to get past a first round review rather than respond to overly-complex solicitations up-front, including by using Annual Program Statements, Broad Agency Announcements, and accepting unsolicited proposals.
- **Pay using models that promote “Progress, Not Programs.”** Disburse the vast majority of this reserved funding using simplified milestone-based awards that pay against the delivery of objectives achieved, which cuts red tape and incentivizes better outcomes.

Unlock Aid 2023 Policy Recommendations

↗ 1 backlink



Note: This is a draft of our 2023 policy recommendations, developed as a result of more than 150 consultations. We are soliciting public input before publishing a final version in January 2023. Please visit UnlockAid.org for updates.

Preamble

We need to reimagine how we do global development.

The international community spends more than \$150 billion each year to help developing countries. But too little money reaches the communities these funds are intended to support — sometimes just pennies on the dollar. Many of the world's largest donors direct most of their aid through the same 10–20 government contractors they've worked with for decades. Most aid projects pay for activities instead of results. In the worst cases, aid projects displace local markets.

There's a better way. Over the past two decades, a new generation of world-class innovators has emerged. Based around the world, and headquartered in cities like Accra, Bangalore, and Bogota, they are solving some of the planet's hardest problems. They're delivering high-quality healthcare to the most remote parts of Africa, Asia, and Latin America. They're using market-based approaches to solve the climate crisis. Yet innovators like these are locked out of the \$150 billion the international community spends each year to address these and other issues.

Many of the reformers who work at traditional donor agencies want to work with this next generation of innovators. They know these organizations can deliver impact faster, cheaper, and more sustainably than the status quo. But they're struggling to make this transition within the constraints of their systems.

We need to bridge this divide to meet climate targets and achieve the 2030 Sustainable Development Goals (SDGs). This document provides a blueprint for the way forward.

Executive Summary

Unlock Aid started as a research project. In May 2022, we published a summary of the issues that more than 60 world-class innovators told us keep them from working with the world's largest global development agencies. Since then, dozens of governments, multilateral banks, and lawmakers have reached out to us to say, "The problem is well diagnosed. Now what do we do?"

What follows is a set of recommendations that governments and donors can adopt to work more closely with this next generation of innovators. These recommendations are the composite of 150+ conversations, including with members of our coalition. They were also informed by the SDGs Moonshot Accelerator, which we co-hosted in Mexico City in August with the Day One Project and brought together 70+ of the world's leading innovators from 25+ countries to reimagine the future of global development. We also looked at what models work at other government agencies and large institutions.

Now we're making this platform available for public comment until December 20.

We've tailored most of the language in the below recommendations to things the United States can do. This is because both Congress and the Biden Administration increasingly want to reimagine the way the United States spends its \$30+ billion official development assistance budget. USAID Administrators from both political parties, including Raj Shah, Gayle Smith, Mark Green, and Samantha Power, have made the case for reform. With a new Congress set to start in January, we now have a narrow political window of opportunity to act. This is one of the few bipartisan issues still left in Washington, DC.

Our recommendations also provide a blueprint that other governments and large international institutions can follow, including UN agencies and development finance banks.

Here are some of the highlights:

- Innovators want to get paid to deliver results. By shifting from pay-for-activities to pay-for-results we can cut red tape while increasing accountability and impact.
- The United States is uniquely positioned to help countries use innovation to leapfrog their economic and social development goals. But making this shift will require major changes in policies and programs.
- By leaning more into transparency and putting USAID partner countries in the driver's seat, the U.S. government can work more closely with innovators to drive better and more sustainable development outcomes.

None of the proposals below is a silver bullet. But taken together they can move the ball forward towards increasing equity, innovation, and results.

First, increase impact by paying for success

To work with next-generation innovators, pay for results.

Too often, donors prescribe in public tenders exactly how they want something performed. This forces organizations to contort their business models to meet the tender's very specific needs. Organizations that have built their businesses around winning international development grants and contracts will do this, but innovative firms with business models that don't depend on donor dollars will not.

However, if donors simply stated the results they want achieved — and left the “how” to doers — this will open the doors to more innovative players. When designed well, pay-for-results models do not require lengthy responses to jargon-laced RFPs. They become an effective way to increase impact while also cutting red tape and generating greater interest from non-traditional market participants. **Within four years, at least 40 percent of all US foreign-assistance funding should flow through mechanisms that pay for results.**

Increase the use of milestone-based grants and contracts

Innovative players want to get paid to deliver results, not count beans. But in the present system, USAID reimburses for every hour worked and for every hammer, nail, and widget purchased — plus overhead. It can cost more than \$200,000 to invest in systems just to apply for and comply with a single USAID award.

This kind of cost and complexity locks out players who aren't part of the system. Awards that reimburse for time and activities also incentivize contract holders to drag out projects and use their own staff to increase billable hours instead of working closely with more local and non-traditional players to achieve results.

Other U.S. government agencies have addressed this same issue by increasing the use of pay-for-success milestone-based contracting. In May, NASA Administrator Bill Nelson told lawmakers that awards that reimbursed for costs were a “plague” at his agency because they stifled competition and drove up costs. Instead, by increasing its use of milestone-based contracting, NASA has been able to bring down barriers to entry to enable more innovative players like SpaceX to get in the door (see this report).

USAID should move in the same direction. Last year, just 1.3 percent of the total value of USAID's grants paid against milestones delivered. Along with making a shift to more pay-for-results awards, however, USAID's contracting corps will also need training to ensure that these new awards are designed well. When USAID has historically designed pay-for-results awards the agency has also added the red-tape requirements that traditionally pair with reimbursement-style awards, thus undermining the key benefits of pay-for-results models.

Put evidence-based solutions first in line to receive funding

We know, through decades of research, which investments will have the most impact for every dollar spent. At the start of each fiscal year, USAID should make sure that these solutions are the first in line to receive US foreign assistance funding. The Office of the Chief Economist can lead an annual process to draw up this list of high-priority investments.

First on the list should be the highest-impact solutions supported by the agency's Development Innovation Ventures (DIV) unit, which delivers a \$17 to \$1 social return on investment (SROI). DIV uses a tiered-based funding model that increases funding to organizations as they "demonstrate rigorous evidence of impact, cost-effectiveness, and a viable pathway to scale and sustainability." USAID should use the agency's best-resourced budgets to bring the DIV unit's most effective investments to greater scale. This will leave the DIV unit with more resources to focus on earlier-stage investments and evaluations.

Next, USAID can look outside the agency's walls to identify other evidence-based solutions where it can co-invest funds. For example, philanthropic outfits like GiveWell spend 30,000+ hours per year updating a list of the top organizations that "save or improve lives the most per dollar spent." Similarly, the Global Innovation Fund has identified dozens of the most cost-effective solutions that are having the biggest impacts in global health, food security, and clean energy. Organizations like GiveDirectly facilitate direct cash transfers, which evidence shows, often yield better outcomes than traditional development projects.

USAID should prioritize investments in evidence-based solutions. And it should robustly fund organizations and agency units that are expert at sourcing and evaluating evidence-based solutions, like DIV and the Global Innovation Fund.

Build and support pay-for-outcomes marketplaces

Not every global development goal can be quantified in dollars and cents, but many can, for example: the cost per vaccine administered, per farmer served, or per megawatt of clean energy generated. Many of the world's most effective organizations can measure their impact according to standardized, universally-accepted indicators.

We need a 24/7, 365-day marketplace that describes USAID's willingness to pay for clearly defined, high-priority results. More like Upwork.com than SAM.gov. Providers should be able to publicly register their ability to deliver against specific goals, at what cost, and against what timelines. No complex RFPs. Just simple contracts. Every transaction executed in the open. Funds can be held in trusts until the results are delivered.

The U.S. government has done this before. For example, during the New Deal, the U.S. government published how much it wanted to pay to electrify rural areas. Large incumbent utilities scoffed at the idea, but more scrappy rural cooperatives did not, many of which used these federal payment guarantees to secure private financing to power rural America. USAID can take this approach today.

To start, USAID can pilot and/or co-invest in existing “outcomes funds” or “outcomes marketplaces” in environments where key prerequisites exist:

- Measurement of the outcomes is clear and simple;
- Achievement of the outcome would be a good thing no matter who does it (e.g. increasing vaccination rates, increasing access to food);
- There are multiple providers to ensure the U.S. government gets the benefit of different approaches and competition;
- The marketplace can create a forum for managed competition where USAID need not be overly prescriptive on how the outcomes are achieved.

Successful pilots could pave the way for executing outcomes marketplaces at much greater scale and in a variety of sectors and geographies that meet the above criteria.

Second, make the United States’ approach to global development synonymous with innovation

The United States can become the partner of first resort for entrepreneurs and countries that want to innovate to leapfrog their development goals. USAID will need to reimagine how it sees its own work, however. Not merely as the provider of traditional aid or humanitarian assistance, but as a catalyst for the kind of innovation the world needs to solve 21st-century challenges.

To do this, it will need to more closely model how the world's most successful companies operate. When high-performing companies miss their targets, they identify what went wrong and then figure out how to solve the problem. A company's Chief Innovation Officer (CIO) is on the lookout for innovative startups that can solve core business needs. Or to run processes to incubate ideas and bring better products to market. CIOs lead internal go-to-market teams that serve as the company's connective tissue, linking business units with problems with innovators with solutions.

With programs in more than 100 countries, USAID's overseas missions are uniquely positioned to identify some of the world's best innovators — and then partner with them to scale their impact. USAID staff based around the world should be building a funding pipeline to the next-generation of innovators based in Africa, Asia, and Latin America. They should be nominating high-performing innovators into the agency's DIV program and introducing promising startups to the U.S. International Development Finance Corporation (DFC). Conversely, USAID is also well positioned to facilitate two-way innovation by connecting countries in search of world-class American technology with the innovators behind those solutions, too.

The Office of the CIO needs to have its finger on the pulse of the agency. It should know every unit's biggest challenges so it can pair them with solutions. Innovation should never be done for innovation's sake. Always to solve problems.

Bring down barriers to entry and expedite vetting

USAID's Office of the CIO should be running regular processes to fast-track vetting on behalf of the agency for high-impact innovators — and then proactively connect those innovators with the agency units that need them the most. The CIO should start by sourcing and expediting vetting for the best-in-class innovators identified by other trusted partners. For example:

- Gavi's [Infuse program](#) has identified 30+ organizations that provide "scalable, high-impact, proven innovations" that are rapidly accelerating progress towards vaccinating children around the world.
- The [i3 program](#) has identified 30+ of the leading healthcare companies in Africa that are changing the way health supply chains on the continent operate.

- The U.S. Government's Development Finance Corporation (DFC) has invested in many of the most promising companies from around the world solving problems in energy, food, and health. There should be a formal link to ensure that USAID and U.S. government development programs like PEPFAR evaluate which DFC-backed companies can best drive results — and integrate them into their programs.

USAID should also partner more with scores of innovation hubs across Africa, Asia, and Latin America. Organizations like Afrilabs have links to 500+ innovation hubs across Africa, for example, which in turn have links to thousands more Africa-based innovators. Working through existing hubs can help USAID build a funding pipeline to the next-generation of Indigenously-led organizations that have more market-based, sustainable solutions to achieving the SDGs. Hubs can also manage back-office functions for non-traditional USAID partners.

In tandem with expediting vetting, USAID should also make it easier to apply to work with the agency. To do this, it will need to rapidly move away from using complex RFPs and start using open calls for proposals and concept notes to start the application process.

Create a Commercialization Innovation Pipeline Program to promote more market-based solutions

There's a tried-and-true playbook for sourcing, testing, and deploying new solutions. It starts with problem identification, and then leads to a multi-phased process that involves prototyping, testing, and iteration. The most viable solutions that graduate through this model are the ones a company brings to market. This is how the world's most innovative firms — from Google to Unilever — develop and deploy new solutions.

It's also how eleven of the federal government's most innovative agencies work, too, including NASA, the U.S. Air Force, and the National Science Foundation. Each of these agencies participates in the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) program, which encourage small businesses to invest in research and development that have the the potential for commercialization — with additional incentives to work in partnership with larger research institutions and universities. The SBIR and STTR programs have created tens of billions of dollars in economic output, and have led to scientific breakthroughs in sectors like space and biotechnology. Congress recently voted to reauthorize the SBIR and STTR programs by a 441–8 vote in the House and unanimously in the Senate.

The United States needs a program that functions like SBIR/STTR for global development. Such a program would enable innovative companies from around the world to test, replicate, and commercialize new models that contribute to better, more market-based, and sustainable development outcomes. Modeled after SBIR and STTR programs in other sectors, a global development Commercial Innovation Pipeline Program (CIPP) should:

- Provide tiered-, milestone-based contracts (e.g. Phase I, Phase II, Phase III) to companies that scale in value as a firm can show scientific and technical merit for a new innovation, potential for replication, and viable pathway to commercialization;
- Encourage technology transfer between small businesses and research institutions;
- Become a hub for global innovation by making eligible organizations from any country that USAID supports to participate in the program. USAID and the DFC's overseas missions should proactively recruit promising firms into CIPP.

Distinct from USAID's Development Innovation Ventures program, which is well equipped to source and scale *evidence-based solutions* and methodologies, a program to incubate, test, and deploy sustainable *commercial solutions* should be housed at an agency that is expert at vetting and partnering with private sector players, which could include the DFC, Department of Commerce, or State Department. CIPP must still be well-integrated with other US global development agencies and programs, including USAID and PEPFAR. This is to ensure that CIPP-supported innovations address core priorities, so there is internal demand to scale up funding for CIPP's most promising solutions.

Hasten the transition from “aid to trade” by betting on existing markets

Congress created the DFC to finance private sector solutions to the most critical challenges facing the developing world. However, when USAID gives billions of dollars in contracts for commercial products and services to international contractors in sectors where a private market already exists, this displaces local economies and limits free and fair competition. It also undermines the DFC’s potential for impact.

In sectors that are ready to transition from aid to trade, USAID and the DFC should work together to invest in more sustainable, market-based approaches. For example, USAID can start by experimenting with new models within the current suite of \$17 billion health supply chain awards, which are up for public tender in 2022 and 2023. There are already established logistics companies operating across Africa, Asia, and Latin America that deliver goods to last-mile communities every day. These are mature markets, so using international contractors to administer other countries’ supply chains runs the high risk of distorting local economies.

Instead, the DFC should open a financing window to provide existing, established logistics and healthcare companies that already operate in these economies with upfront working capital to expand their footprint and make other operational investments. In parallel, USAID should pay against pre-defined performance metrics, such as the number of on-time deliveries made, just as private markets would. This kind of approach would strengthen existing economies rather than displace them. It’s also the fastest way to hasten the transition to a world that does not depend on foreign aid.

USAID can first pilot this model by setting aside \$300 million of the planned \$17 billion award in five countries where there are already thriving and well-established private markets, like Ghana, Kenya, and Rwanda. A successful model could be scaled up and later applied to sectors like agriculture and clean energy.

Champion advanced science & technology to solve hard problems

Imagine a world where we've mapped the genome of every known plant and maritime species and we can now identify new, alternative sources of energy and drought-resistant food products as a result — the same way the Human Genome Project has helped us accelerate progress in the War on Cancer and other diseases. Imagine new technology that could significantly bring down the cost and increase the efficiency of refrigeration units — one of the leading drains on power systems around the world. This kind of breakthrough would cut carbon emissions and save millions of people who die from extreme heat every year.

The U.S. Government funds multiple Advanced Research Projects Agencies (ARPAs) at agencies like the Department of Defense (DARPA) and Department of Energy (ARPA-E). The Biomedical Advanced Research Projects Authority (BARDA), part of Health and Human Services, was the agency behind Operation Warp Speed, which gave us three Covid-19 vaccines in less than a year. The Biden Administration recently proposed a new ARPA for Climate. Each of these ARPAs work on challenges that are interconnected to global issues.

The U.S. Congress should direct existing ARPAs (e.g. DARPA, ARPA-E, etc.) with proven models to explicitly consider how their investments could be applied to low- and middle-income country contexts. Then, place staff from USAID at that agency to connect new science and technology research to core development challenges. Ensure that innovators and universities from USAID partner countries participate in the work.

In parallel, every year, the U.S. Congress should authorize USAID to make at least 2–3 major Advanced Market Commitments per year to catalyze new R&D investments in breakthrough innovations in food security, global health, or other priorities (e.g. an AMC for therapeutics for tuberculosis, for example). AMCs are an example of a pay-for-success model — the US government only pays when the innovation has been developed. But the promise of funding at the end of the tunnel creates strong market incentives for firms and universities to invest R&D to develop new solutions.

Third, use accountability and country choice to drive results

Every system responds to incentives and checks and balances. By putting countries in the driver's seat and enforcing accountability through transparency, USAID and other US foreign assistance agencies can become more results-oriented and innovator-friendly.

Put countries in the driver's seat by letting them pick vetted partners

Countries and community-level players should be put in the driver's seat to determine who they want to work with, especially if they want to work with a specific service provider, technology, or innovator to achieve a specific goal — and they should be able to count on USAID, PEPFAR, and other U.S. global development agencies to be a partner in this effort.

When a country wants to work with an approved, vetted innovator, the USAID mission office in that country should be able to access designated centralized, regional, and mission-level resources to work directly with the approved firm(s). This might sound like a simple idea, but too often international contractors or a USAID mission will choose a solution for a country — and not the other way around. Further, once selected, a chosen innovator should not be forced to have their award buried deep within a larger award. Awards should go out the door in the way that makes sense for the innovator's business model, i.e. as a license for a technology firm or as a fixed-price contract or grant for organization delivering against pre-defined milestones.

The U.S. Government should make it as easy as possible for countries to access best-in-class innovations to make faster progress towards achieving their development goals. It should prioritize investments in solutions that governments are also using their own funds to support, or where private markets can sustain the solution. The U.S. Millennium Challenge Corporation already uses a model that does this well. USAID can follow suit.

Enforce accountability through transparency

USAID is highly dependent on spending money via a small cohort of government contractors. As long as this is the case, the agency needs to do more to ensure these contractors work more closely and equitably with local communities and frontline innovators. "It's just not true that USAID's American implementing partners pass on most of their money to local organizations via subawards," wrote [this](#) Center for Global Development report.

USAID can start by banning practices like “bid candy,” where contractors promise smaller organizations significant involvement in a project at the proposal stage to win an award, only to later renege on the deal once the work begins. USAID can require the holders of large awards to publicly disclose the percent of funding they promised would go to their sub-partners at the proposal stage compared to the percent actually devolved.

USAID should also offer sub-partners a standing invitation to every work-planning session that occurs between USAID, the prime contractor, and host government. Every work plan, budget document, evaluation, and legal agreement made between USAID and the prime recipient of a large award should be made public. Some of these requirements are already codified in law, but compliance is lax, so new accountability tools are needed.

Additionally, USAID maintains many approved vendors lists. For example, the agency's Global Health Bureau maintains a list of all of the types of health products the agency is allowed to buy, for example. The Chief Information Officer maintains a list of technology providers that are approved to do business with USAID. But the process to get on these lists is opaque. USAID needs to publish its list of lists, data on who is on those lists, and information about how new organizations can apply.

Finally, USAID requires many of its overseas missions to develop internal strategies to work with the private sector, local partners, new and underutilized partners, and other categories of organizations. These strategies should be made public so that innovators can see where they can fit in.

Recruit and develop a next generation of talent to drive results

U.S. global development agency performance systems reward compliance when what we need are systems that optimize for performance. HR incentives must be more closely aligned with USAID's highest-priority objectives and incentivize better results.

In addition, agencies like USAID need to hire a new generation of personnel who have best-in-class management and operations expertise. This is as critical as hiring individuals who have thematic and sectoral expertise, especially given the volume of money USAID needs to manage each year. USAID will find this new generation of talent by proactively recruiting outside of traditional development circles, including by recruiting new and more diverse talent from multinationals, startups, and other private sector players.

